

FISCAL MEMORANDUM

SB 2659 – HB 3100

March 5, 2008

SUMMARY OF AMENDMENT (014677): Deletes all language of the original bill except for the effective date clause. Creates a health benefit tax credit for small businesses, to be used in specific order against franchise and excise tax liability, state unemployment tax liability, worker's compensation tax liability, and professional privilege tax liability, when such small businesses pay at least 50 percent of health care coverage costs for their eligible enrolled employees. Such health benefit tax credit shall not exceed \$400 per eligible enrolled employee.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Exceeds \$15,750,000

Increase State Expenditures - \$125,000/One-Time

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue –

Exceeds \$11,025,000/General Fund

Exceeds \$3,150,000/Unemployment Compensation Fund

Exceeds \$1,575,000/Competitive State Compensation Insurance Fund

Increase State Expenditures - \$200,000/One-Time

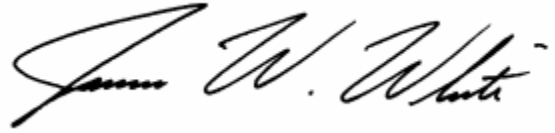
Assumptions applied to amendment:

- “Eligible enrolled employee” means a permanent full-time, small business employee who is enrolled in a qualifying health benefits plan, and whose federal taxable income does not exceed \$40,000 per year.
- “Full-time employment” means a normal work week of thirty hours or more.

- “Qualifying existing coverage” means benefits or coverage provided under an employer-based health insurance or health benefit arrangement, including a self-insured plan, which provides benefits similar to or in excess of benefits provided under the basic health care plan of coverage recommended by the Small Employer Carrier Committee pursuant to the Tennessee Small Employer Group Health Coverage Reform Act.
- “Small business” means a taxpayer that employs no more than 25 eligible enrolled employees throughout the taxable year, or a taxpayer that, as a client company of a professional employer organization, co-employs not more than 25 eligible enrolled employees throughout the tax year.
- Maximum allowable tax credit would be \$10,000 (25 employees x \$400 per person = \$10,000) per taxpayer.
- The Department of Revenue indicates that there are more than 175,000 active franchise and excise (F&E) taxpayers.
- Minimum of three percent of all F&E taxpayers (5,250) are small businesses as defined by this bill.
- Fifty percent of small business F&E taxpayers provide qualifying existing coverage.
- One-hundred percent of small business F&E taxpayers who provide qualifying existing coverage incur costs related to the providing of such benefits that exceeds \$400 per person per year (the maximum allowable credit per person).
- Total number of eligible taxpayers is estimated to be 2,625 (175,000 x 3% x 50% = 2,625) per year.
- The average tax credit is estimated to be 60 percent (\$6,000) of the maximum allowable tax credit (\$10,000).
- Total health benefit tax credits are estimated to exceed \$15,750,000 (2,625 eligible taxpayers x \$6,000 average tax credit = \$15,750,000) per year.
- Sixty-five percent of the total health benefit tax credits will be used against franchise and excise tax liabilities; 20 percent will be used against state unemployment tax liability; 10 percent will be used against worker’s compensation tax liability; and five percent will be used against professional privilege tax liability.
- Franchise and excise tax revenue and professional privilege tax revenue are allocated to the General Fund; state unemployment tax revenue is allocated to the Unemployment Compensation Fund; and worker’s compensation tax revenue is allocated to the Competitive State Compensation Insurance Fund.
- One-time state expenditures for computer modifications and software revisions estimated to be \$200,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large, stylized initial "J".

James W. White, Executive Director

/rnc